ESG trouble? Call in the fart counters

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Body

Accountants have come a long way from the days when they were disparagingly referred to as "bean counters," a put-down that portrays the profession and the CFO as a collection of backroom number-crunchers, squinting at the dollar figures on the balance sheet and reluctant to endorse the brilliant schemes hatched in the marketing department.

It's an old stereotype. Today, accountants are long past counting beans and money. Now they are the marketing department, pushing a whole new model for measuring corporate performance.

The Big Four accounting firms - PwC, KPMG, EY and Deloitte - are riding high on other, non-monetary aspects of corporate operations. The Financial Times reports as front-page news that the firms are collectively set to generate 2021 revenue of US$167.3 billion, a seven per cent increase over 2020, with KPMG boasting a 10 per cent gain to $32.1 billion.

What's going on? Advising on takeover and mergers is one growth sector. Another, with big growth coming, is the industry's push into ESG, where the firms have set themselves up as key players in the business of helping corporations measure and report on their environmental, social and governance achievements.

One of the Big Four accounting giants, PwC, briefly summarizes the new accounting manifesto. "It's not an exaggeration to say ESG is driving a complete reframe of how we conceptualize value. When we step away from the premise that success is based largely on financial measure, everything is upended. ESG is a new way to think. Financial value and ethical values are now coming together in unprecedented ways - success is no longer simply about financials, disclosures, climate change or diversity. It's about aligning and embedding all of these principles, and more, into your strategy, capital allocation and operations to know you're prepared for the world of for the world of tomorrow."

That's the ESG mission summary now being adopted by the Big Four.

Unlike beans and money, however, much of ESG remains unmeasurable, a reality acknowledged in scores of reports and commentaries. First comes the ESG data problem, which suffers from "lack of validity, reliability and comparability." up regulatory standards A crowded race is on to set up regulatory standards and boards. Agencies already in existence include the Sustainability Accounting Standards Board, the Carbon Disclosure Project, the Climate Disclosure Standards Board, Global Reporting Initiative, the Task Force on Climate-Related Financial Disclosures, and the International Integrated Reporting Council.

Among the problems, notes one overview, is that "existing ESG ... often lack raw data. A company may only need to make a short text disclosure that it is or isn't engaging in certain activities or whether it has certain controls or standards in place. Even if something that affects ESG is quantifiable, companies rarely collect the needed data."

A good demonstration of the complexities - if not the absurdity - of the ESG raw data measurement problem is the global campaign to force McDonald's to purge its hamburger empire of carbon from beef. A recent Bloomberg feature portrayed the company as a carbon-spewing pariah. McDonald's, it claimed, produces more carbon that Norway. "Cattle belch out large quantities of head-trapping methane, making beef the most harmful food for the climate."

Belch isn't quite right. More colloquially, cattle fart methane carbon into the atmosphere, apparently in significant volumes. The question for McDonald's is how to measure the volume of carbon emitted by the cattle whose meat make up the beef patty in each burger. Nobody has a clue, but that has not stopped activists at Friends of the Earth and others from branding the maker of Big Macs as a climate sinner. Nor has it stopped McDonald's, a longtime corporate green-washer, from bowing and scraping before critics as it claims to be on the path to sustainability and net-zero carbon emissions by 2050.

The implication is that somehow McDonald's should be able to measure and control the emissions of farting cattle across its supply chain! It's a problem. The Canadian Roundtable for Sustainable Beef outlines the complexity in its Sustainable Beef Production Standard. Producing beef to scale delivers a "carbon balance." While cattle emit the methane greenhouse gas, their grassland ranches sequester carbon as a sink. "There is currently no practical tool available for individual producers to measure on-farm carbon balance."

Under ESG principles and activist theory, every company on the planet is supposed to be able to count, measure, document and report on its carbon emissions, in McDonald's case from fart to burger. Would a carbon tax do the job? Or how about little airbags mounted on the rears of the cattle to begin a carbon capture and sequestration (CCS) process? Surely there's a federal CCS grant program available. Or maybe we could bring in the Big Four to apply their expanded bean-counting expertise. !@COPYRIGHT=© 2021 Postmedia Network Inc. All rights reserved.

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